

**MINUTES OF THE SPECIAL MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
December 5, 2002
9:00 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 14th Floor Conference Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Alan Maguire, Chairman, Arizona State Retirement System Board, called the meeting to order at 9:05 a.m., MST.

The meeting was teleconferenced to the ASRS office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

1. Call to Order; Roll Call

Present: Mr. Alan Maguire, Chairman
Ms. Bonnie Gonzalez, Vice Chairman
Ms. Charlotte Borchert
Mr. Jim Bruner (Arrived 9:54 a.m.)
Mr. Norman Miller
Mr. Ray Rottas
Mr. N. Carl Tenney

Excused: Dr. Chuck Essigs
Mr. Karl Polen

A quorum was present for the purpose of conducting business.

2. Presentation, Discussion, and Appropriate Action Regarding the Pending Request for a Private Letter Ruling from the IRS regarding the Supplemental Retirement Savings Plan (SRSP)

Charles Whetstine, Legal Counsel, summarized by saying the ASRS has submitted a request for a Private Letter Ruling for the SRSP to the IRS. The IRS has examined the ASRS' request and establish criteria for the ASRS to follow for the SRSP. The provisions include that an employee must make his/her election to participate within the first two years of employment and the elections must be irrevocable for the remainder of the employee's employment.

Mr. Whetstine added that in order for the SRSP to accept pre-tax contributions, the ASRS must receive a favorable Private Letter Ruling. The ASRS has been working with the IRS to try to get a favorable outcome; however, the IRS has decided that some of the progressive provisions of the SRSP are not allowable for this type of plan. The IRS indicated that the SRSP would need to be amended in order to become a pre-tax plan. To revise the plan as it exists, the ASRS will also need to request State statutory change.

Mr. Whetstine updated the Board on a meeting he, Alan Maguire, Board Chairman, and Anthony Guarino, Deputy Director, Chief Operations Officer, had with the IRS in October. One of the questions raised during this meeting was regarding the two-year eligibility. When an employer enrolls in the plan and all employees can immediately participate in the plan within two years, regardless of their age, an older employee is more likely to sign into the program than a younger employee. An age restriction provision was suggested to increase the possible number of enrollees. The IRS did not seem opposed to this idea.

Additional information, regarding the SRSP Private Letter Ruling, is due to the IRS by December 13, 2002. Mr. Whetstine recommended that the ASRS respond to the IRS by proposing to amend the legislation and the plan to meet the two-year eligibility, and the irrevocability provisions. This response would not lock the ASRS into these provisions. Mr. Whetstine believes this would be much easier than starting the whole process from the beginning.

Mr. Maguire stated there are three options at this time. The ASRS can choose not to amend the plan and receive an adverse ruling from the IRS; the ASRS can amend the Private Letter Ruling request; or the ASRS can withdraw the request and resubmit it in a different form. Mr. Maguire is more comfortable with withdrawing the request to the IRS and going to the State Legislature with these proposed changes and then resubmitting a request at a later date.

Motion: Mr. Ray Rottas moved to withdraw the existing request for a Private Letter Ruling regarding the Supplemental Retirement Savings Plan.

Ms. Charlotte Borchert seconded the motion.

Mr. Miller opposed the motion and stated the ASRS should wait for final determination on the Private Letter Ruling. This would allow time for the IRS to issue Private Letter Rulings for other states which have submitted similar requests during this same period. The ASRS could then review the outcome prior to submitting a second request.

Substitute Motion: Mr. Miller moved that the ASRS not amend the plan; and delay further action until tax counsel advises the ASRS that there is sufficient guidance for the ASRS to move forward.

Ms. Charlotte Borchert seconded the motion.

By a vote of 6 in favor, 1 opposed, 2 excused, the motion was approved.

Ms. Bonnie Gonzalez excused herself from the meeting at 10:17 a.m.

3. Presentation, Discussion, and Appropriate Action Regarding Pending Request for a Private Letter Ruling from the IRS regarding the Modified Deferred Retirement Option Plan (DROP) Plan

This agenda item topic was discussed under agenda item number two.

The order of the agenda was changed to ensure a quorum was present for the purpose of conducting business.

4. Presentation, Discussion and Appropriate Action Regarding the Retention of a Consulting Firm to Assist in the Analysis of Retiree Health Insurance Benefits

Ms. Borchers stated the Health Insurance/Long Term Disability Committee reviewed the proposals submitted to the ASRS. The Committee unanimously agreed to recommend the retention of The Segal Company.

Motion: Mr. Norman Miller moved to recommend retention of The Segal Company as a consulting firm to assist in the analysis of the retiree health care benefits.

Mr. Jim Bruner seconded the motion.

By a vote of 6 in favor, 0 opposed, 3 excused, the motion was approved.

Mr. Miller excused himself from the meeting at 10:19 a.m.

5. Presentation, Discussion, and Appropriate Action Regarding Calculation and Treatment of the “13th Check” for “System” Retirees

Mr. Fred Stork, Assistant Attorney General, reviewed the statutes governing calculation of reserves, funds available for increases in benefits, and the Board’s discretion in decreasing benefits. According to the law (Laws 1995, Chapter 32, Section 24) the ASRS is required to maintain a beneficiary longevity reserve account for the purpose of maintaining benefits payable to retired members. Mr. Stork quoted the following, “The board, after giving due consideration to the recommendation of its actuary, shall determine the amount required in the beneficiary longevity reserve account to maintain benefits payable to retired system members. Any surplus in the beneficiary longevity reserve account in excess of the amount determined by the actuary may be allocated by the board to increase retirement benefits for system members.”

Mr. Stork requested that the ASRS have its actuary, Buck Consultants, determine the financial condition of the system. This analysis would determine whether the Board should reduce the supplemental credits in non-retired member accounts and whether the 13th checks should be eliminated.

Mr. Charles Chittenden, Buck Consultants, conducted this analysis and stated that as of June 30, 2002, accounts were not inadequate and, therefore, recommends that the ASRS not reduce

benefits this year and issue the 13th checks as they were last year. Because of current investment trends, it is very likely that the System will have a deficit next year and at that time checks may be reduced.

He also recommended conducting further annual evaluations of the System to keep track of the funded status; conduct projections to indicate what will occur with different rates of return; examine the adequacies of the assumptions that we use for the plan; study alternatives for reducing future 13th checks; and address how to maintain the funded status at a reasonable level.

Motion: Ms. Charlotte Borchert moved to approve the recommendations set forth by Buck Consultants and not reduce the 13th check for FY2002.

Mr. Ray Rottas seconded the motion.

By a vote of 5 in favor, 0 opposed, 4 excused, the motion was approved.

6. Board Requests for Agenda Items

There were no requests for agenda items.

7. Call to the Public

There were no members of the public requesting to speak to the Board.

8. The next ASRS Board meeting is scheduled for Friday, December 20, 2002, at 8:30 a.m., in the 10th Floor Board Room of the ASRS offices at 3300 N. Central Ave., Phoenix, Arizona 85012.

9. Adjournment of the ASRS Board.

Mr. Alan Maguire, Chairman, adjourned the December 5, 2002, Special Board meeting of the ASRS Board at 10:30 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Marina Chaves, Secretary Date

LeRoy Gilbertson, Director Date